

# Executive Summary

---

This report provides a review and evaluation of Kentucky's General Fund and Road Fund for the first quarter of Fiscal Year 2004 (FY04). General Fund receipts totaled \$1,628.2 million during the first quarter, a decrease of 0.7 percent from the same period of FY03. This represents \$11.9 million less than reported receipts for the first quarter of FY03.

Road Fund receipts in the first quarter of FY04 were \$293.6 million, an increase of 1.6 percent from the first quarter of FY03. This is \$4.7 million more than reported in the same period of FY03.

The first quarter of FY04 saw the economy solidifying as the recovery began to gather momentum. Real gross domestic product (GDP) expanded at an annual 4.6 percent rate in the first quarter. Personal income, a measure of spending power, was up by 4.0 percent annualized. Nonagricultural employment growth has been the missing ingredient so far in the recovery, as evidenced by a decline of 0.3 percent in the number of jobs from the previous quarter.

Kentucky's personal income was estimated at \$108.6 million in the first quarter of FY04, representing an increase of 2.9 percent from one year ago. Employment in the Commonwealth managed a meager 0.2 percent growth, with a gain of 2,900 jobs. Manufacturing, mining, information services and "other" services reported job losses, while construction, the combined trade, transportation and utilities sector, and several service sectors all had healthy growth.

General Fund receipts in the first quarter were lower than in the same quarter last year, when tax amnesty and extraordinary sales tax payments boosted revenues. Performance by major tax type is detailed in Table 3 on page 9. Among the major accounts, the sales and use tax fell by 4.4 percent compared to the one-time gain in FY03, the individual income tax rose 5.0 percent, and corporate income and license tax receipts were off by a combined 19.2 percent compared to a year ago. The coal severance tax continued its slide by 5.7 percent, property taxes were down by 12.9 percent due to timing differences, and the lottery grew by 7.0 percent. All other taxes in the General Fund combined for a growth of 9.8 percent.

The Road Fund posted a small increase in the first quarter of FY04, growing 1.6 percent with total revenues of \$293.6 million. Summary data on first-quarter Road Fund receipts appears in Table 4 on page 11. During the first quarter, motor fuels taxes declined 0.8 percent, and the motor vehicle usage tax was up 1.3 percent. The weight distance tax was up a slight 0.3 percent. The remaining accounts in the Road Fund grew by 10.2 percent, due principally to timing differences in license and privilege taxes.

The national economic outlook for the next three fiscal quarters is for GDP growth to remain healthy at 3.7 percent. In Kentucky, personal income should grow by 3.8 percent compared to 4.6 percent nationally. Employment growth in the state is expected to be muted, with a 0.6 percent rate of increase.

The General Fund and Road Fund outlook for the next three fiscal quarters is for General Fund revenue to grow by 1.6 percent during the final three quarters of FY04. The one-time revenues gained in FY03 mean that our rate of growth will be slower, although the improving economy should provide enough boost to create positive growth in the General Fund. Sales tax revenues should resume their growth, rising 3.9 percent during the period. Individual income taxes are projected to fall by 2.2 percent, compared to one-time growth in the final three quarters of FY03. Other revenue sources should exhibit positive growth with the

exception of the lottery, which is expected to fall after the Tennessee lottery is implemented.

The interim forecast for the Road Fund is for a decline of 0.2 percent during the final three quarters of FY04. Motor fuels taxes are expected to grow by 1.2 percent, and motor vehicle usage tax receipts are forecasted to rise by 2.5 percent. These should be countered by declines in toll income and investment income, which are forecasted to drop by 60.8 percent and 72.3 percent respectively due to the removal of tolls from two Kentucky toll roads.

# The Economy

---

## NATIONAL ECONOMY

### First Quarter, FY 2004

***The much-awaited national recovery seems to have finally materialized. Technically, as measured by GDP growth, the recovery began more than a year ago. But now other key components like consumption and investment have also registered reassuring growth rates. What is still lacking in this recovery is an upturn in employment. The continuing job loss can be ascribed to increased productivity and the shift of production capacity to low-wage manufacturing facilities abroad.***

Real gross domestic product (GDP) is an inflation-adjusted measure of the total output of goods and services produced in the United States. Real GDP is estimated to have increased by 4.6 percent in the first quarter. The strong performance for this quarter follows a steady increase during the last three quarters as the economy steadied and then surged forward in response to a series of fiscal and monetary stimuli. The Federal Reserve Board has been using monetary policy to aggressively jumpstart the economy. Then, during the summer, consumers received both an increase in take-home pay from tax cuts and rebate checks. Both of these policies seem to have added impetus to a fledgling recovery.

Consumption accounts for about two-thirds of real GDP. Total real consumption increased by 6.0 percent in the first quarter, compared to 3.8 percent in the previous quarter and 4.2 percent a year ago. This dramatic upsurge in consumption is fueled to a considerable extent by rebate checks received during

July, and also by the belief that the recovery is here to stay. The turnaround was most pronounced in the durable goods category which was up 20.0 percent. Within this broad category motor vehicles posted a sharp increase of 32.4 percent. This was a consequence of a return of zero-percent financing and steep discounts. Consumption of other durable products was also up. Furniture and related goods were up 15.5 percent due to the strength of the housing sector. Consumption of nondurable goods was up 5.4 percent. This category includes essentials like clothing and energy and usually remains fairly steady. Services comprise over half of all consumption and were up 3.7 percent.

Total investment comprises close to a fifth of real GDP and is usually sensitive to both interest rates and future expansion opportunities. Overall, the investment component of GDP increased by 8.6 percent, following a decline of 5.3 percent in the January-to-March quarter and a slight uptick of 0.9 percent in the

April-to-June quarter. Investment in computers and software was the strongest with growth of 11.7 percent.

Government spending constitutes 17 percent of GDP and was down 0.7 percent. The decline was due to a drop in state and local government purchases. Defense spending was up during the first quarter because of the war in Iraq.

Industrial production was up by 3.0 percent after a 3.5 percent decline in the previous quarter. All major areas of production were up with the exception of textile mills and apparel. Much of this is a result of consumer confidence reacting to positive business news and from the feeling that the recession is finally over. The University of Michigan Consumer Sentiment Index for the first quarter was at 90.6 percent compared to 87.3 percent a year ago. Factory capacity utilization is still very low (73.1 percent), as production costs in Asian countries, particularly China, make it cost-effective to locate manufacturing plants abroad.

Personal income, a measure of spending power, was \$9,263.0 billion in the first quarter, for an annualized increase of 4.0 percent over the previous quarter. By historical standards this is still weak growth, but it is a dramatic improvement compared to the 2.0 percent increase registered a year ago.

The unemployment rate in the first quarter averaged 6.2 percent– the highest in four years. The rate of inflation as measured by the Consumer Price Index was just 2.8 percent. The “core” rate of inflation, which excludes food and energy, was up just 1.5 percent.

Total nonagricultural employment averaged 129.9 million jobs in FY04:1, a decline of 0.3 percent from the previous quarter. The continuing job loss– though at a slower rate than six months ago– reflects the only flaw in this recovery. The economy is expanding in terms of output and investment from productivity gains (up 4.9 percent) and imports (up 10.1 percent).

## STATE ECONOMY

***The Kentucky economy is definitely in the recovery phase. In a heartening contrast to the national situation the number of jobs in the first quarter of FY04 was actually higher than a year ago. However, income growth lagged the national rate since high-wage sectors didn't see job increases.***

Kentucky's personal income is estimated to be \$108.6 billion for the first quarter of FY04, an increase of 2.9 percent from a year ago. U.S. personal income grew by 3.4 percent during the same period.

Wages and salaries constitute a little over half of personal income. Income derived from wages and salaries is estimated to have grown by 1.9 percent in FY04:1, compared to 2.3 percent nationally. The relatively slower rate of increase in Kentucky's wage and salary income is because the state economy relies more on wages from manufacturing and mining than the national economy. Both of these sectors are still in decline.

Employment data is commonly used to gauge the strength of the state's economy, primarily because of its timely availability

and its impact on consumer spending and confidence. Nonagricultural employment in Kentucky is estimated to have increased by 2,900 jobs in the first quarter of FY04, resulting in a growth of 0.2 percent. Historically this is a fairly low level of job growth. During the period 1993 to 1999 Kentucky added almost 30,000 jobs annually. However, given that productivity has increased substantially and the national economy is still recording a slight decline in employment, even an increase of 0.2 percent is encouraging.

The employment categories reported for both Kentucky and the U.S. have been revised since the last quarterly report. The transition from Standard Industrial Classification (SIC) to the North American Industry Classification System (NAICS) has resulted in a revision of industry descriptions into a new set of broad classifications called “super categories.” The eleven super categories are shown in Table 2. The biggest change is in the splitting of the SIC service sector into five super categories: information, finance, business services, educational services, leisure and hospitality services, and a catch-all called “other services.”

Most of the employment growth, both in terms of numbers and percentage change, was in the contract construction sector (up 4.7 percent with an increase of 3,900 jobs). The relative strength of construction is from the housing sector which continues to receive a boost from historically low mortgage rates. Leisure and hospitality services were up 2.0 percent. Most of the gain was in the area of accommodation and food services. The arts and entertainment portion of this category showed a slight decline.

The Finance category added 1,500 jobs and grew by 1.8 percent. Much of the employment in this area is ascribed to the growth of mortgage banking and real estate-related services. Business services expanded by 1.3 percent, and educational services by 1.0 percent.

The most important change in the newly classified NAICS category is the emergence of the information sector. This includes establishments that create, disseminate, or provide the means to distribute information. It also includes establishments that provide data processing services. Industries included in this new sector are newspaper, book, and periodical publishers, previously included in the manufacturing sector in the SIC. Internet-related services also fall under the information category. The information sector showed a marked percentage decline in Kentucky (down 3.8 percent) primarily due to jobs losses in the newspaper publishing business.

Historically the area of biggest concern to Kentucky is the manufacturing sector. The newly revised definition of manufacturing makes it the third-largest sector in the Kentucky economy after government, and trade, transportation, and utilities. Manufacturing employment accounts for about 15 percent of all nonagricultural employment in Kentucky compared to 11 percent nationally. This is an important reason for the difference seen in the first quarter performance of Kentucky wage and salary income versus the national average. Manufacturing in Kentucky declined by 1.9 percent resulting in a loss of 5,300 jobs. Most of the job loss was in the area of durable goods, particularly in primary metals and industrial machinery.

**Table 1**  
**National Economic Indicators**  
**First Quarter, FY 2004**

	<u>FY03:1</u>	<u>FY04:1*</u>	<u>% Chg</u>
Real GDP (bil 1996 \$)	9,485.6	9,734.2	2.6
Personal Income (bil \$)	8,958.9	9,263.0	3.4
Consumer Price Index (1992-94=100)	2.2	2.8	-
Industrial Production (1992=100)	3.4	3.0	-
Civilian Labor Force (mil)	137.1	137.7	0.4
Total Nonag. Emp. (mil)	130.2	129.9	-0.3
Mfg. Employment (mil)	15.2	14.6	-4.3
Unemployment Rate (percent)	5.8	6.2	-

**Sources:** Global Insight Inc., and U.S. Department of Commerce, Bureau of Economic Analysis.

\*Data for FY04:1 are September 2003 estimates.

**Table 2**  
**Selected Kentucky Economic Indicators**  
**Seasonally Adjusted Data**

	<u>FY03:1</u>	<u>FY04:1</u>	<u>% Chg</u>
Total Personal Income (\$ mil)	105,556	108,629	2.9
Wage & Salary Income (\$ mil)	57,052	58,121	1.9
Total Nonagricultural Employment (Thou)	1,779.3	1,782.2	0.2
Contract Construction	82.4	86.3	4.7
Mining	19.9	19.0	-4.5
Manufacturing	273.0	267.7	-1.9
Trade, Transportation & Utilities	368.9	372.1	0.9
Information	31.8	30.6	-3.8
Finance	84.5	86.0	1.8
Business Services	155.1	157.1	1.3
Educational Services	222.3	224.5	1.0
Leisure and Hospitality Services	152.4	155.5	2.0
Other Services	76.5	72.9	-4.7
Government	312.4	310.4	-0.6

Note: Numbers may not add up due to rounding.

**Sources:** U.S. Department of Commerce, Bureau of Economic Analysis, GOEA

**This page left blank intentionally.**

# Revenue Receipts

## FIRST QUARTER, FY 2004

### General Fund

Revenues in the first quarter of FY04 declined slightly compared to the first quarter of FY03; however reported revenues for the first quarter of FY03 were inflated due to unusual circumstances. Receipts in the first quarter of FY04 totaled \$1,628.2 million compared to \$1,639.9 million received in the first quarter of FY03, resulting in a decline of 0.7 percent. Two events that occurred during the first quarter of FY03 had a significant impact on comparative revenues. First, a Tax Amnesty program was conducted by the Revenue Cabinet; it resulted in nearly \$40 million in additional receipts during the first quarter of FY03. Second, a significant one-time receipt occurred in the sales tax, resulting in non-recurring collections in excess of \$30 million, also in the first quarter of FY03.

Collections in the major revenue categories are shown in summary form in Table 3. Detailed information on these and other accounts is available in the Appendix.

Variations in the quarterly receipts are affected by differences in the timing of payments into revenue accounts. The base revenues of many taxes were impacted by timing differences of some degree due to the tax amnesty program conducted during the first quarter of FY03. Additionally, property taxes had significant timing differences that were not related to the amnesty program.

Total sales and use tax receipts for the quarter were \$605.9 million, compared to \$634.1 million in the first quarter of FY03. The resulting decline of 4.4 percent was strongly influenced by non-recurring revenues. Base sales tax revenues were significantly influenced by amnesty collections and a large receipt due to a one-time event.

Individual income tax posted receipts of \$703.7 million, compared to last year's first-quarter receipts of \$670.6 million. This results in a growth rate of 5.0 percent, and compares to last year's first quarter decline of 1.8 percent.

Corporation income and license tax receipts decreased significantly in the first quarter of FY04, based in part on amnesty

Type Tax	FY04	FY03	Percent Change
Sales and Use	605.9	634.1	-4.4
Individual Income	703.7	670.6	5.0
Corporation Inc./Lic.	89.4	110.6	-19.2
Coal Severance	34.2	36.2	-5.7
Property	41.0	47.1	-12.9
Lottery	42.8	40.0	7.0
All Other	111.2	101.3	9.8
<b>TOTAL</b>	<b>1,628.2</b>	<b>1,639.9</b>	<b>-0.7</b>

program receipts last year. Revenues of \$89.4 million were 19.2 percent lower than year-earlier figures of \$110.6 million.

Property tax receipts posted a 12.9 percent decline over the first quarter of a year ago, primarily due to a significant timing difference in Public Service Company property tax payments. FY04 first-quarter receipts of \$41.0 million compare with \$47.1 million from the first quarter of FY03.

Coal severance tax revenue continued a long-term decline. First quarter receipts were down 5.7 percent, following continued trends in lower coal prices and lower consumption. Collections of \$34.2 million compare to the FY03 first-quarter total of \$36.2 million.

Lottery receipts were \$42.8 million, up 7.0 percent from last year's first-quarter total of \$40.0 million. Increased receipts were influenced by increased Powerball sales.

The "all other" category, which represents the remaining accounts of the General Fund, increased by 9.8 percent in the first quarter. First-quarter receipts for FY04 were \$111.2 million and compare to \$101.3 million in FY03.

### **Road Fund**

The Road Fund posted a small increase in the first quarter of FY04, increasing 1.6 percent compared to the first quarter of FY03. Receipts totaled \$293.6 million and compare to \$288.9 million from the first quarter of last year. Summary data are contained in Table 4 and detailed data are shown in the Appendix.

Motor fuels tax receipts declined at a rate of 0.8 percent during the first quarter. Receipts were \$112.2 million and compare to \$113.1 million collected during the first quarter of last year.

Motor vehicle usage tax grew at a slow rate in the first quarter, with receipts up by 1.3 percent. Receipts during the first quarter of FY04 totaled \$118.6 million and compare to \$117.1 million collected during the same period last year.

Weight distance tax receipts of \$19.7 million represent a 0.3 percent increase over receipts of \$19.6 million during the first quarter of FY03.

The remainder of the accounts in the Road Fund combined for an increase of 10.2 percent from a year earlier. In the "all other" category, revenues of \$43.1 million were up from \$39.1 million in the first quarter of FY03. During the first quarter, three accounts within the "all other" category had significant changes. First, motor vehicle license fees were up substantially due to a distribution of fees from the International Registration Plan (IRP), which allows for easier registration of certain large trucks with the appropriate fees distributed to the participating states. Second, investment income was down 43.3 percent as accumulated funds continue to be disbursed for various construction projects. And third, the anticipated decrease in toll income was hidden by a return of funds held by participating depository banks. Actual toll receipts dropped significantly; however, the local banks that handled the processing of toll coins had maintained a compensating

balance of funds in their accounts. When the tolls were discontinued, these working funds held by the local banks were paid into the state treasury. Toll income for the quarter was down nearly 50 percent, but the transfer of the compensating balances of approximately

\$1.5 million offset most of the decline for the first quarter. Toll receipts as shown on the quarterly receipts report were down 10.5 percent, and are expected to be down approximately 50 percent for the rest of this fiscal year.

**Table 4**  
**Summary Road Fund Receipts**  
**First Quarter, FY 2004**  
**(millions of dollars)**

<u>Type Tax</u>	<u>FY04</u>	<u>FY03</u>	<u>Percent Change</u>
Motor Fuels	112.2	113.1	-0.8
Motor Vehicle Usage	118.6	117.1	1.3
Weight Distance	19.7	19.6	0.3
All Other	<u>43.1</u>	<u>39.1</u>	<u>10.2</u>
<b>TOTAL</b>	<b>293.6</b>	<b>288.9</b>	<b>1.6</b>

**This page left blank intentionally.**

# Economic and Revenue Outlook

---

## **ECONOMIC OUTLOOK: Interim Forecast**

The long-awaited economic recovery gathered steam in the first quarter of FY04. Real GDP expanded by 2.6 percent compared to one year earlier, and U.S. personal income was up by 3.4 percent. While not robust by the standards of most recoveries, the rate of growth is expected to increase over the next three quarters. During the period October 2003 to June 2004, real GDP is expected to grow by 3.7 percent. Employment in nonagricultural industries, which has been flat or negative during the recovery so far, is forecasted to finally begin growing, rising by 0.6 percent in the remainder of the fiscal year.

The consumption component of GDP has recently been the major factor in sustaining growth. For the next three quarters, real consumption expenditures are projected to increase by 3.9 percent with durable goods rising by 7.4 percent, nondurables rising 4.1 percent, and services up 3.2 percent. Lack of growth in employment is believed to have retarded the growth in consumption; resumption of employment growth should aid consumer spending.

Investment spending has been accelerating in recent months, and the outlook is for a continuation of that trend. During the next three quarters, investment is expected to rise by 7.1 percent, driven up by greater expenditures for all information-processing equipment. Industrial equipment is forecasted to begin growing in early 2004, while

transportation equipment should rebound sharply in the remainder of the fiscal year.

Government purchases are the remaining large component of GDP, and will be up by 1.9 percent during the next three quarters. Increased federal spending will compensate for flat expenditures by state and local governments.

### **State Economy**

The impact of the national recovery will be felt in the state economy. However, since the goods-producing sector is more pronounced in the state, the recovery is expected to be more prolonged. Personal income is estimated to increase by 3.8 percent during the October-to-June FY04 period compared to a 4.6 percent increase nationally. The wage and salary component of Kentucky personal income is forecasted to rise by 2.8 percent during that period.

The disparity between the national and state recoveries can be traced to their differing industrial mix. During FY04, 15 percent of Kentucky's nonfarm employment is estimated to be in manufacturing compared to 11 percent nationally. At the same time total nonfarm business productivity is forecasted to increase by 3.9 percent in the final three quarters of FY04. The corresponding figure for manufacturing productivity is 4.4 percent for the same

period. The strong productivity numbers and lackluster job growth in Kentucky are expected to retard growth in Kentucky's wages and salaries. With relatively high unemployment, most productivity gains are expected to accrue to the owners of businesses rather than to workers.

In the first quarter of FY04, reporting of nonagricultural employment in Kentucky converted from the old Standard Industrial Classification (SIC) code to the new North American Industrial Classification System (NAICS). As a result, statewide employment figures are displayed in new categories as reflected in Table 5.2. Kentucky's nonagricultural employment is expected to increase by only 11,100 jobs in the final three quarters of FY04, with a gain of 0.6 percent. In percentage terms, mining and information services are expected to post the most significant losses.

### **Revenue Outlook: Interim Forecast**

Projected General Fund revenues for the next three quarters are shown in Table 6. General Fund revenues were \$1,628.2 million in the first quarter of FY04, a decline of 0.7 percent from the same period a year ago. Revenues declined primarily due to unanticipated one-time gains experienced in the first quarter of FY03. The one-time revenues included large sales tax increases, and the successful conclusion of the tax amnesty program.

Anticipated revenues for the last three quarters of FY04 are \$5,225.9 million, corresponding to a growth rate of 1.6 percent from the previous fiscal year. Growth is expected to be muted by

additional one-time payments made in FY03 that raised the base.

The official revenue estimate prepared in April 2003 anticipates revenues of \$7,096.5 million. (Note: The consensus estimates prepared in October 2003 do not carry official status.) The interim forecast as shown in Table 6 anticipates that revenues will be \$6,854.1 million, a reduction of \$242.4 million. As explained below, most of the shortfall is within the individual income tax.

Total sales and use tax receipts for the first quarter of FY04 were \$605.9 million, representing a decline of 4.4 percent from the same period one year ago. The projected rate of growth for the remaining three quarters of FY04 is 3.9 percent. Total sales and use tax receipts for FY04 are estimated to be \$2,402.7 million, or \$70.0 million below the official estimate.

The interim forecast for the individual income tax calls for a decline of 2.2 percent for the remainder of FY04, amounting to collections of \$2,029.8 million. The individual income tax rose by 5.0 percent in the first quarter of FY04, but in the remaining three quarters revenues are expected to decline compared to the large one-time payments received in FY03. For the entire fiscal year, individual income tax receipts are projected to fall by 0.5 percent.

The outlook for corporation income and license taxes projects an increase of 10.8 percent in the final three quarters of FY04, representing collections of \$354.7 million. These anticipated collections will bring the FY04 total to \$444.1 million, an increase of 3.1 percent from FY03.

Revenues in FY04 for the corporate license tax will be boosted by an expected \$26.6 million as a result of a court decision that removed preferential treatment for Kentucky-based corporations.

The coal severance tax has fallen gradually in recent times, and the decline of 5.7 percent in the first quarter of FY04 continues that trend. For the remainder of FY04, the coal severance tax is expected to stabilize with modest growth of 0.6 percent. Overall for the fiscal year, coal severance tax receipts are forecasted to decline by 1.0 percent.

Property tax receipts totaled \$41.0 million in the first quarter of FY04, representing a decline of 12.9 percent. It is expected that the remaining three quarters of FY04 will yield total property tax revenues of \$405.5 million, for a growth of 4.6 percent from the previous year. Declines year-to-date are the result of timing differences, and growth for the entire fiscal year should average 2.7 percent.

Lottery revenues grew by 7.0 percent in the first quarter of FY04 as the state benefited from extra dividends earned due to large Powerball sales. In the next three quarters, lottery revenues are expected to decline due to the inauguration of a Tennessee Lottery early in 2004.

The "other" category contains estimates for several of the smaller revenue sources not otherwise classified. The final three quarters of FY04 should experience a continued growth in this category due primarily to legislated changes adopted in the 2003 General Session. Abandoned property receipts will grow largely as a result of changes to definitions and

holding periods. The cigarette tax should also see growth from a cap on wholesaler compensation for affixing stamps to packs of cigarette. Natural gas and other severance taxes should continue to experience growth from increased output.

## ROAD FUND

Road Fund revenues over the three-quarter horizon are expected to decline by 0.2 percent as shown in Table 7. This represents a decrease of \$14.1 million from the official revenue estimates prepared in April 2003.

Motor fuels tax receipts are forecasted to grow by 1.2 percent in the last three quarters of FY04, slightly stronger than their growth of 0.3 percent in the first quarter.

Motor vehicle usage tax collections are expected to rise by 2.5 percent, bettering their performance in FY03. License and privilege taxes benefited from one-time money in the first quarter; growth will be 6.2 percent in the final three quarters of FY04.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative factors. Toll income and investment income are projected to fall sharply. Toll income is projected to decline by 60.8 percent due to the elimination of toll revenue on several Kentucky parkways. Investment income should fall by 72.3 percent due to significantly lower Road Fund balances.

**Table 5.1**  
**U.S. Economic Outlook for FY04**  
**Quarters 2, 3, & 4**

	<u>FY03</u>	<u>FY04</u>	<u>%*</u> <u>Chg</u>
Real GDP (bil 1996 \$)	9,565.2	9,923.2	3.7
Personal Income (bil \$)	9,093.2	9,507.0	4.6
Consumer Price Index (1992-94=100)	182.6	185.2	1.4
Industrial Production (1992=100)	110.1	112.9	2.5
Civilian Labor Force (mil)	146.0	147.6	1.1
Total Nonag. Emp. (mil)	130.2	130.9	0.6
Mfg. Employment (mil)	14.9	14.4	-3.5
Unemployment Rate (percent)	5.9	6.1	-

\* Seasonally adjusted annual rate.

**Sources:** Global Insight, and U.S. Department of Commerce, BEA.  
 Data for FY04 are September 2003 estimates.

**Table 5.2**  
**Kentucky Economic Outlook for FY04**  
**Quarters 2, 3, & 4**

	<u>FY03</u>	<u>FY04</u>	<u>%*</u> <u>Chg</u>
Total Personal Income (\$mil)	107,389	111,439	3.8
Wage & Salary Income (\$mil)	57,923	59,532	2.8
Total Nonagricultural Employment	1,783.2	1,794.3	0.6
Contract Construction	83.2	86.8	4.3
Mining	19.7	19.1	-3.0
Manufacturing	271.9	265.8	-2.2
Trade, Transportation & Utilities	368.3	375.2	1.9
Information	31.7	30.8	-2.8
Finance	85.4	86.5	1.3
Business Services	154.7	161.0	4.1
Educational Services	226.6	227.6	0.4
Leisure and Hospitality Services	155.0	157.0	1.3
Other Services	74.6	74.1	-0.7
Government	312.2	310.4	-0.6

\* Seasonally adjusted rate from a year ago.

**Source:** GOEA's Macromodel of Kentucky, September 2003

Table 6  
General Fund: Interim Forecast  
(millions of dollars)  
October 2003

	FY04			FY04			Official Budget Estimate	Diff
	Quarter 1		% Chg Yr Ago	Quarters 2,3, & 4		% Chg Yr Ago		
	Actual			Interim Estimate				
Sales & Use	605.9	-4.4		1,796.8	3.9		2,402.7	1.6
Individual Income	703.7	5.0		2,029.8	-2.2		2,733.5	-0.5
Corp. Income & Lic.	89.4	-19.2		354.7	10.8		444.1	3.1
Coal Severance	34.2	-5.7		106.1	0.6		140.3	-1.0
Property	41.0	-12.9		405.5	4.6		446.5	2.7
Lottery	42.8	7.0		121.0	-7.6		163.8	-4.2
Other	111.2	9.7		412.0	4.7		523.2	5.7
Total General Fund	1,628.2	-0.7		5,225.9	1.6		6,854.1	1.0
							7,096.5	-242.4

**Table 7**  
**Road Fund: Interim Forecast**  
 (millions of dollars)  
 October 2003

	FY04			FY04			FY04			Official Budget Estimate	Dif
	Quarter 1		% Chg Year Ago	Quarters 2, 3 & 4		% Chg Year Ago	Full Year				
	Actual			Interim Estimate			Interim Estimate				
Motor Fuels & MF Use/Surtax	116.9		0.3	341.6		1.2	458.5		1.0	465.2	-6.7
Motor Vehicle Usage & Rental	118.6		1.4	323.9		2.5	442.5		2.2	447.8	-5.3
License & Privilege (excl. WD)	25.0		39.7	82.5		6.2	107.5		12.4	106.1	1.4
Weight Distance Tax/Surtax	19.7		0.5	59.2		3.3	78.9		2.6	81.1	-2.2
Toll Income	3.2		-11.1	3.8		-60.8	7.0		-47.4	13.7	-6.7
Investment	5.4		-43.8	5.4		-72.3	10.8		-62.9	5.5	5.3
Other	4.8		2.2	16.1		-3.0	20.9		-1.9	20.8	0.1
Road Fund	293.6		1.6	832.5		-0.2	1,126.1		0.3	1,140.2	-14.1

## APPENDIX

**This page left blank intentionally.**

**KENTUCKY STATE GOVERNMENT - GENERAL FUND REVENUE**

	<b>First Quarter 2003 - 2004</b>	<b>First Quarter 2002 - 2003</b>	<b>% Change</b>
<b>TOTAL GENERAL FUND</b>	<b>\$1,628,229,510</b>	<b>\$1,639,906,089</b>	<b>-0.7%</b>
<b>Tax Receipts</b>	<b>\$1,559,467,102</b>	<b>\$1,579,455,730</b>	<b>-1.3%</b>
<b>Sales and Gross Receipts</b>	<b>\$653,083,010</b>	<b>\$681,263,967</b>	<b>-4.1%</b>
Beer Consumption	1,712,215	1,813,752	-5.6
Beer Wholesale	10,389,848	10,219,220	1.7
Cigarette	4,049,655	4,096,710	-1.1
Distilled Spirits Case Sales	21,681	20,627	5.1
Distilled Spirits Consumption	2,220,283	2,074,773	7.0
Distilled Spirits Wholesale	4,059,826	3,765,227	7.8
Insurance Premium	22,497,346	22,364,275	0.6
Pari-Mutuel	(12)	808,352	—
Race Track Admission	129,910	100,353	29.5
Sales and Use	605,927,159	634,112,839	-4.4
Wine Consumption	466,423	431,521	8.1
Wine Wholesale	1,608,678	1,456,319	10.5
<b>License and Privilege</b>	<b>\$54,242,537</b>	<b>\$71,464,230</b>	<b>-24.1%</b>
Alc. Bev. License Suspension	81,250	41,250	97.0
Coal Severance	34,172,454	36,219,762	-5.7
Corporation License	10,368,944	27,914,292	-62.9
Corporation Organization	18,960	100,029	-81.0
Occupational Licenses	39,474	45,141	-12.6
Oil Production	815,813	757,713	7.7
Race Track License	165,200	154,875	6.7
Bank Franchise Tax	(452,685)	(577,422)	—
Driver License Fees	134,143	140,417	-4.5
Minerals Severance	3,829,573	3,355,935	14.1
Natural Gas Severance	5,069,411	3,312,239	53.1
<b>Income</b>	<b>\$782,797,463</b>	<b>\$753,263,564</b>	<b>3.9%</b>
Corporation	79,051,340	82,713,014	-4.4
Individual	703,746,123	670,550,550	5.0
<b>Property</b>	<b>\$41,012,953</b>	<b>\$47,104,463</b>	<b>-12.9%</b>
Bank Deposits	0	260	—
Building & Loan Association	36,375	122,792	-70.4
Distilled Spirits	29,735	39,530	-24.8
General - Intangible	(72,758)	(17,804)	—
General - Real	54,978	(212,935)	—
General - Tangible	15,902,939	15,627,484	1.8
Omitted & Delinquent	2,808,676	1,384,891	102.8
Public Service	22,240,986	30,149,279	-26.2
Other	12,021	10,965	9.6
<b>Inheritance</b>	<b>\$19,149,271</b>	<b>\$20,992,734</b>	<b>-8.8%</b>
<b>Miscellaneous</b>	<b>\$9,181,869</b>	<b>\$5,366,773</b>	<b>71.1%</b>
Legal Process	7,245,536	3,617,213	100.3
T. V. A. In Lieu Payments	1,936,333	1,749,560	10.7
Other	0	0	—
<b>Nontax Receipts</b>	<b>\$63,613,625</b>	<b>\$58,161,525</b>	<b>9.4%</b>
Departmental Fees	5,971,223	5,181,911	15.2
PSC Assessment Fee	5,444,439	2,733,762	99.2
Fines & Forfeitures	6,760,981	9,542,587	-29.1
Interest on Investments	247,510	259,356	-4.6
Lottery	42,800,000	40,000,000	7.0
Sale of NOx Credits	2,931,250	0	—
Miscellaneous	(541,779)	443,908	—
<b>Redeposit of State Funds</b>	<b>\$5,148,783</b>	<b>\$2,288,833</b>	<b>125.0%</b>

# KENTUCKY STATE GOVERNMENT - ROAD FUND REVENUE

	First Quarter 2003 - 2004	First Quarter 2002 - 2003	% Change
<b>TOTAL ROAD FUND</b>	<b>\$293,573,316</b>	<b>\$288,874,322</b>	<b>1.6%</b>
<b>Tax Receipts</b>	<b>\$280,183,857</b>	<b>\$271,043,462</b>	<b>3.4%</b>
<b>Sales and Gross Receipts</b>	<b>\$235,472,221</b>	<b>\$233,524,484</b>	<b>0.8%</b>
Motor Fuels Taxes	112,168,734	113,117,361	-0.8
Motor Fuels Use & Surtax	4,628,354	3,269,417	41.6
Truck Trip Permits (fuel)	97,520	84,640	15.2
Motor Vehicle Usage	118,577,614	117,053,066	1.3
<b>License and Privilege</b>	<b>\$44,711,636</b>	<b>\$37,518,978</b>	<b>19.2%</b>
Motor Vehicles	21,310,570	14,401,513	48.0
Motor Vehicle Operators	1,416,969	1,458,656	-2.9
Weight Distance	19,678,133	19,622,140	0.3
Truck Decal Fees	32,794	36,737	-10.7
Other Special Fees	2,273,170	1,999,933	13.7
<b>Nontax Receipts</b>	<b>\$13,120,504</b>	<b>\$17,364,220</b>	<b>-24.4%</b>
Departmental Fees	3,923,427	3,711,801	5.7
In Lieu of Traffic Fines	393,586	387,701	1.5
Highway Tolls	3,210,289	3,586,131	-10.5
Investment Income	5,427,841	9,569,771	-43.3
Miscellaneous	165,360	108,816	52.0
<b>Redeposit of State Funds</b>	<b>\$268,955</b>	<b>\$466,640</b>	<b>-42.4%</b>